

**SHELBY COUNTY BOARD OF COMMISSIONERS
AGENDA ROUTE SHEET**

Referred to Commission Committee (name) _____

For Commission Action on (date) _____

DESCRIPTION OF ITEM:

Resolution to Amend Shelby County Retirement System Plan B to Add an Automatic Cost of Living Adjustment for Certain Retirees and Survivors for Calendar Years 2010, 2011, and 2012. Sponsored by Commissioner J.W. Gibson.

CHECK ALL THAT APPLY BELOW:

X This Action does NOT require expenditure of funds.

_____ This Item requires/approves expenditure of funds as follows (complete all that apply):

County General Funds: \$ _____ ; County CIP Funds- \$ _____

State Grant Funds: \$ _____ ; State Gas Tax Funds: \$ _____

Federal Grant Funds: \$ _____

Other funds (Specify source and amount): \$ _____

Other pass-thru funds (Specify source and amount): \$ _____

Originating Department: Human Resources

APPROVAL:

Dept. Head:	<u>Michael Lewis</u> <u>545-4359</u>	<u>ML</u>	<u>10-6-09</u>
	(Type your name & phone #.)	(Initials) <i>B.P.R.</i>	(Date)
Elected Official:	_____	_____	_____
	(Type your name & phone #.)	(Initials)	(Date)
Division Director:	<u>Grace Hutchinson</u> <u>545-4514</u>	<u>GH</u>	<u>10-6-09</u>
	(Type your name & phone #.)	(Initials) <i>B.P.R.</i>	(Date)
CIP – A&F Director:	<u>Raymond Piskin</u> <u>545-3174</u>	<u>RP</u>	<u>10-6-09</u>
	(Type your name & phone #.)	(Initials)	(Date)
Finance Dept.	<u>Wanda Richards</u> <u>545-3232</u>	<u>WR</u>	<u>10-6-09</u>
	(Type your name & phone #.)	(Initials)	(Date)
County Attorney:	<u>Brian Kuhn</u> <u>545-4910</u>	<u>BK</u>	<u>10-6-09</u>
	(Type your name & phone #.)	(Initials)	(Date)
CAO/Mayor:	<u>James Huntzicker</u> <u>545-4514</u>	<u>JH</u>	<u>10-6-09</u>
	(Type your name & phone #.)	(Initials) <i>B.P.R.</i>	(Date)

SUMMARY SHEET

I. Description of Item

This resolution will amend Plan B to allow for a cost-of-living adjustment to be granted to certain Plan B retirees. The adjustments will be for calendar years 2010, 2011 and 2012 for an amount equal to that of Plans A & C. The adjustment cannot exceed 4%. The estimated cost to fund the cola at the 4% level would be 1.5 million per year for the next 10 years.

II. Source and Amount of Funding

Shelby County Retirement System

III. Contract Items

N/A

IV. Additional Information Relevant to Approval of this Item

Approved by Shelby County Retirement Board

Amending Plan B to allow for a cost-of-living adjustments for 2010, 2011 & 2012

Actuarial letter attached

ITEM NO: _____

PREPARED BY: Susan Callison

COMMISSIONER: _____

APPROVED BY: _____

[Signature]
County Attorney

Resolution to Amend Shelby County Retirement System Plan B to Add an Automatic Cost of Living Adjustment for Certain Retirees and Survivors for Calendar Years 2010, 2011, and 2012. Sponsored by Commissioner J.W. Gibson.

WHEREAS, by resolutions previously adopted, the Shelby County Commissioners adopted and has since maintained Shelby County Retirement System consisting of Plan A, Plan B and Plan C; and

WHEREAS, Section 7.5 of Plan B, as amended and restated effective January 1, 2007, provides as follows regarding cost of living adjustments and cost-of-living adjustments and bonuses:

"7.5 Cost-of-Living Adjustments. This Plan does not provide for any automatic cost of living adjustments to Pensions. From time to time the County Commission may enact through resolution a cost of living adjustment or a cost of living bonus with respect to the Pensions of the members of one or more categories of Retired Participants and Beneficiaries. Any such enactment shall be deemed to be an amendment to this Plan and shall be recorded as such in Article 12. Such additional benefits shall be subject to all of the provisions of this Plan."; and

WHEREAS, the Shelby County Retirement Board has recommended that, for the calendar years 2010, 2011, and 2012, the following categories of Plan B participants be entitled to automatic cost of living adjustments calculated in the same way as are the cost of living adjustments contained in Plan C (with necessary adjustments for differences in terminology and in identity of eligible survivors in the two Plans): (1) service retirees who have attained age 65 as of January 1 of the relevant calendar year; (2) disability retirees; (3) surviving spouses of service and disability retirees if such survivors have attained age 65 as of January 1 of the relevant calendar year; and (4) survivors who are eligible children or eligible parents; and

WHEREAS, a copy of the System's actuary's actuarial impact letter with respect to the proposed amendments is attached hereto,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF SHELBY COUNTY, TENNESSEE, that Plan B be, and is hereby, amended as follows:

1. The following two definitions are added to Article 1 of the Plan, to be inserted in the appropriate locations, alphabetically:

"COLA" means cost of living adjustment based in part upon the Consumer Price Index; the COLA applies to annual adjustments in the amounts of certain Pensions.

"Consumer Price Index" shall mean the Consumer Price Index for Urban Wage Earners and Clerical Workers as measured by the United States City Average for all items, published by the Bureau of Labor Statistics, and adjusted as may be necessary by the Actuary for any change in the index or its base.

2. Section 7.5 of the Plan is hereby amended to read as follows in its entirety:

7.5 Cost-of-Living Adjustments.

7.5.1 In General. This Plan does not provide for any automatic cost of living adjustments to Pensions. From time to time the County Commission may enact through resolution a cost of living adjustment or a cost of living bonus with respect to the Pensions of the members of one or more categories of Retired Participants and Beneficiaries. Any such enactment shall be deemed to be an amendment to this Plan and shall be recorded as such in Article 12. Such additional benefits shall be subject to all of the provisions of this Plan.

7.5.2 Exception for Calendar Years 2010, 2011, and 2012. Notwithstanding the provisions of 7.5.1, this 7.5.2 shall apply to the calendar years 2010, 2011, and 2012.

7.5.2.1 Application to Certain Pensions. On January 1 of each of such calendar years, a COLA shall be made for the 12 months then beginning with respect to the following Pensions then being paid:

(a) Service Retirement Pensions, but only for calendar years beginning after the Participant has attained age 65;

(b) Disability Pensions;

(c) Survivor Pensions to surviving Spouses, but only for calendar years beginning after the Spouse has attained age 65;

(d) Survivor Pensions to Eligible Children or Eligible Parents pursuant to Article 6.

7.5.2.2 Amount of COLAs.

7.5.2.2.1 In General. The COLA to each eligible Pension as of January 1 of each of such calendar years shall be the lesser of (a) 4% or (b) the percentage increase (if any) in the CPI-U (or, in the discretion of the Board, such other cost of living index utilized from time to time by the Social Security Administration in adjusting benefits under the OASDI provisions of the Social Security Act) during the 12 month period ended on the preceding September 30, as computed by the Actuary.

7.5.2.2.2 Further Limitations. Notwithstanding the provisions of 7.5.2.2, except as otherwise permitted under IRC 415 as a result of the application of the COLA, no Pension shall at any time exceed 100% of the Participant's Final Average Earnings. Furthermore, for the Plan Year in which the Participant's post-Termination benefit first exceeds 100% of his Final Average Earnings, and for each succeeding Plan Year, the percentage increase in each benefit payment for each such Plan Year shall be the lesser of the COLA or the maximum permissible cost-of-living adjustment prescribed by the Secretary of the Treasury under IRC 415(d)(1)(B) and 415(d)(2).

7.5.2.3 Pensions as of January 1, 2013. Absent further amendment to the Plan effective on or before January 1, 2013, each Pension that was adjusted for the COLA on January 1, 2012 shall remain the same for the calendar year 2013, and the provisions of 7.5.1 shall again apply to such Pensions.

3. These amendments are effective as of the date of their adoption.

A C Wharton, County Mayor

Date: _____

Clerk of the County Commission

ADOPTED: _____

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

1000 Ridgeway Loop Road
Memphis, TN 38120
901 684 3100 Fax 901 684 3060
www.mercer.com

September 11, 2008

Ms. Waverly Seward
Manager of Retirement
Shelby County Government
160 North Main Street, 9th Floor
Memphis, TN 38103

Confidential

Subject: Plan B COLA

Dear Waverly:

Mercer was asked to determine the actuarial impact to the Retirement System if an automatic cost-of-living adjustment (COLA) is provided to certain Plan B retirees, survivors, and disableds. In our study we valued three cost-of-living schedules, all based on the annual change in the Consumer Price Index (CPI). Our assumption for the annual CPI increase is based on a long-term inflation rate of 2.5%. If the long-term inflation rate exceeds 2.5% the cost impact will be greater than is illustrated below. In addition, if the life expectancy is longer than we are assuming, the cost impact will be greater than we are estimating. Of course, inflation and life expectancy could be lower than our assumption, as well, which would serve to lower these costs over time.

Option 1 is identical to the cost-of-living provision in Plans A and C, with the exception that it only applies to participants who had 20 or more years of service with the County. The other conditions are as follows:

A maximum of 4% annual adjustment based on CPI changes applies to the following benefits:

- (a) Retired participants after age 65
- (b) Disabled participants
- (c) Temporary survivor benefits for dependent children and spouses
- (d) Permanent survivor benefits for spouses over age 65

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In no event, however, will the Plan B benefits exceed 100% of final average pay except as follows for an employee who retires with 40 or more years of service:

Monthly Final Average Earnings (FAE)	Maximum Benefit (% of FAE)
Less than \$1,200	124%
\$1,200 to \$2,800	115%
More than \$2,800	106%

Option 2 is the same as Option 1 except that retired participants must have had more than 25 years of service with the County.

Option 3 is the identical cost-of-living provision in Plans A and C, with the exception that the increases are only provided on January 1, 2009, January 1, 2010 and January 1, 2011. The retirement benefit remains level after three years.

We based the cost analysis on our last actuarial valuation report as of July 1, 2007 as if the plan changes were effective on that date. There were 1,385 Plan B participants receiving benefits, 82 active participants, and 6 terminated with deferred benefits. To determine the cost impact, we calculated the present value of the future benefit increases and amortized this amount over a 10-year period. Based on that methodology, Option 1 would require an additional \$4.9M contribution for the next 10 years. Option 2 would require an additional \$4.1M per year for the next 10 years. Option 3 would require an additional \$1.5M for the next 10 years.

The results of the July 1, 2007 actuarial valuation for Plans A, B, and C, compared with the results of this study, are as follows (in millions):

	Current	Option 1	Option 2	Option 3
1) Normal Cost	\$28.0	\$28.1	\$28.1	\$28.0
2) Amortizations				
a) Plan C	3.6	3.6	3.6	3.6
b) Surplus	(9.2)	(9.2)	(9.2)	(9.2)
c) Plan B COLA	N/A	4.5	3.7	1.4
3) Employee Contributions	(8.6)	(8.6)	(8.6)	(8.6)

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	Current	Option 1	Option 2	Option 3
4) Interest Charge	\$1.5	\$1.8	\$1.8	\$1.6
5) Total County Contributions	\$15.3	\$20.2	\$19.4	\$16.8
6) Increase	N/A	\$4.9	\$4.1	\$1.5
7) Total as % of active Payroll	5.91%	7.81%	7.48%	6.51%

The data, assumptions, methods, and plan provisions are summarized in the Actuarial Valuation Report as of July 1, 2007 for the Retirement System of Shelby County, Tennessee. Since the final average pay for Plan B retirees is not in our database, we approximated those amounts based on active service reported to us and current retirement benefits.

I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion in this report and am available to answer any questions with respect to these findings.

Sincerely,

Karen W. Buckner, ASA, FCA

Copy:

James Martin

David Pontius

Stacy Franklin (Mercer)

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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CPI-U 12-Month Changes, 1999 to Present

